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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 000221

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SUBJECT: UNITEL GSM BID IN DOUBT; OMANTEL POISED TO BENEFIT

REF: SANAA 23

Classified By: Charge D'Affaires Nabeel Khoury for reasons 1.4 (b) and (d).

1. (C) SUMMARY. After months of speculation, it is now certain that Unitel is unable to cover the cost of its bid offer for Yemen's third GSM license. Political connections continue to keep the company afloat, but most bets are now on Omantel to win the license. Although a legitimate operator, Omantel may have overreached with its bid offer as well, and it remains to be seen if they will be able to pay, or if a behind-the-scenes accommodation will be made. Post's advocacy efforts on behalf of Millicom have little chance for success, as President Saleh associates that company with Israel. The tender farce surrounding the GSM license now borders on the ridiculous, with corrupt officials fighting among themselves while the investment climate continues to suffer. END SUMMARY.

Unitel Charade Coming to an End

2. (C) After months of delay, Unitel's fourth deadline extension to pay the USD 149 million it offered for Yemen's third GSM license is set to expire on January 31. Local Unitel representatives have reportedly been unable to come up the necessary funds to honor their bid, despite early claims that they were backed by China Mobile. (Reftel) Company executives undertook a frantic last-minute search for alternate partners, including the Palestinian company Paltel. Paltel representatives visited Sanaa twice and, according to Tarik al-Haidary, CEO of GSM competitor Sabafon, Prime Minister Bajammal held a four-hour meeting to convince them to invest. Paltel declined the offer, said Haidary, saying the contract was not worth the money and Yemen's government is too corrupt to trust. Without a true operating partner, Unitel's bid is no longer viable.

Omantel Next in Line

3. (C) All indications are that the ROYG will offer the contract to the next highest bidder, Omantel, which offered USD 101 million. In a previous meeting with Ambassador, Bajammal said that in the event a bidder could not honor its offer, the ROYG would simply work its way down the list of bidders, a position confirmed in a letter from the Cabinet to Omantel's local representative, Saleh Ali Muhsen. Post is formally advocating for Millicom, the third highest bidder at USD 54 million. Pathi Fahem, Millicom's local representative, insisted that Omantel does not meet the requirement of the tender document, as they have no international experience and did not submit their bid bond in time.

4. (C) Nevertheless, competitors consider Omantel a legitimate operator, hungry to expand beyond Oman. Their bid may be somewhat inflated, said Haidary, but it is worth the price to gain a reputation as an international company. Muhsen, who will receive 10 percent of the company's shares in Yemen if successful, confirmed this view, adding that Omantel will recoup some of its cost by selling 35 percent of shares to Yemeni investors. Among those who have expressed interest, according to Muhsen, are the Hayel Saeed Group and Fahim, his competitor from Millicom. Sources in Muscat are slightly more skeptical, citing Omantel's disappointing profits and stagnant share prices for 2005. While there is no doubt that Omantel would like to expand beyond its small home market, it may not be willing to accept a loss leader of USD 100 million. As such, Omantel may look to pay in installments, rather than in the lump sum required by the tender agreement. If this arrangement is not palatable to the ROYG, this could re-open the door for Millicom.

Saleh: "Millicom is Israeli"

5. (C) Hamid al-Ahmar, head of the al-Ahmar group which includes Sabafon, said the situation is "very bad" for Millicom. Ahmar claimed that in a private meeting with President Saleh, the President said, "Millicom is Israeli, and they will never win this contract." Millicom is based in

Luxembourg, but sent former Israeli diplomat David Kimche as a company representative to Yemen on several occasions to advocate for their bid, which is what may have raised the Yemenis' antennae. (Note: Hamid is also a member of Parliament and son of Yemen's pre-eminent sheikh, Abdullah al-Ahmar. END NOTE).

16. (C) Al-Ahmar also claimed to know for certain that Unitel was to belong in part to Saleh, whose interests were represented in the matter by his nephew, Tarik. Muhsen rejected the notion that Saleh was behind Unitel, implicating instead Bajammal and Minister of Telecommunications Moalimi. According to Muhsen, the two ministers conspired with the Chinese Ambassador to Yemen (since departed) to obtain Chinese loans that would cover the USD 149 billion bid price, with significant personal benefit for all three. When the Chinese portion fell through, the ministers managed to gain repeated extensions to look for alternative funding. They refused to give Omantel the contract, said Muhsen, because he had not paid any bribes. Haidary countered that the extensions can only be explained by a presidential stake in the company, and that it is not out of the question that the Unitel deal will be revived yet again if Saleh twists more arms. (NOTE: Muhsen is brother to Mohammed Ali Muhsen, Military Commander for Yemen's Easter Quadrant, and a relative of the President. END NOTE).

Comment: Corrupt Fiddle While Investment Climate Burns

17. (C) The third GSM tender has become a showcase for Yemen's unwillingness to conduct a legitimate tender. Four months after winning the contract, Unitel has yet to pay a dime, but remains in the running. Omantel may benefit from the collapse of Unitel's house of cards, but it remains to be seen if they too will renege on their initial bid offer. ROYG officials refuse to accept that the Yemeni market can only attract legitimate operators at around USD 50 million, and instead choose to run the tender like a bazaar. The personal involvement of high officials, possibly including the President or members of his family, compromises the tender process further. While Yemen's ruling elite continues to play games, the clear loser is the country's investment climate and telecom services.
Khoury